



Director of  
Central  
Intelligence

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**Page Denied**

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25X1

Contents



25X1

Spain-US-NATO: *Status of Negotiations* . . . . . 2

France: *Stage Set for Municipal Elections* . . . . . 3

Lebanon-Israel: *Talks Begin* . . . . . 4

USSR-Argentina: *Commercial Air Link* . . . . . 4

USSR - Western Europe: *Soviet Remarks on CSCE* . . . . . 5

EC: *Dispute Over Fishing Rights* . . . . . 5

West Germany: *Reduction in Foreign Aid* . . . . . 6

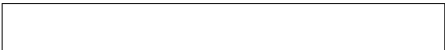


25X1

Special Analyses

USSR-Afghanistan: *The Fighting Drags On* . . . . . 7

USSR: *The Astrakhan Natural Gas Project* . . . . . 9



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25X1

25X1

**Page Denied**

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25X1

SPAIN-US-NATO: Status of Negotiations

*//The Spanish Government has submitted an offer to the US that it hopes will allow ratification of the bilateral military agreement without affecting the question of Spanish integration into the military structure of NATO.//* [redacted]

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//A draft note presented last Thursday to the US Ambassador by Foreign Ministry official Gabriel Manueco states that, if Spain modifies its status in the Alliance, the two sides will meet to adjust the "relevant texts" of the agreement. In discussing the document, Manueco held out a strong hope that Spain ultimately will accept some form of military cooperation with the Allies.// [redacted]

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//Foreign Minister Moran, in parliamentary testimony on 21 December, said that Madrid would recommend approval of the bilateral agreement before the deadline in May 1983, provided this would not tie Spain's hands regarding NATO. Moran also indicated that Spain would continue its representation on NATO military and political committees while reviewing the membership question. According to Moran, however, Spain would not join in the committees' decisions.//

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Comment: //The new government is seeking a mechanism for approving the bilateral agreement, which the Socialists believe is in Spain's interest. The Socialists, however, may not fully appreciate the extent to which US law ties some benefits of the agreement to NATO membership.//

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//Manueco has advocated NATO membership, and his speculation on the government's willingness to accept military cooperation may be overoptimistic. Nevertheless, the decision by Madrid to continue participation in NATO committees seems to indicate a growing sense of the potential value of membership, whatever the outcome of the decision on military involvement.// [redacted]

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## FRANCE: Stage Set for Municipal Elections

*The conclusion of an electoral agreement between the Socialists and the Communists, following a similar understanding by the centrists and the Gaullists, means that both the coalition and the opposition have papered over their differences in preparation for municipal elections in March.*

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Socialist and Communist leaders reached an agreement on 22 December that will almost eliminate competition between them for the leftwing vote in the elections for mayoral and city council posts. The pact covers all but 11 of the 231 cities with populations of over 30,000.

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During the protracted negotiations, the Socialists made a number of concessions to the Communists. In about 20 localities the Socialists agreed to support the incumbent Communist mayor, even though the Socialists received more votes in these cities in the national elections in 1981 and local militants argued that a Socialist candidate should head the slate.

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Comment: The ruling parties were under pressure to come to an understanding. They feared that open dissension would hand victories to the opposition. The centrists and Gaullists had already agreed the week before on common lists of candidates.

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The Socialists' concessions show President Mitterrand's continuing desire to convey the impression of unity on the left, to which he attributes his victory in 1981, and his worry that Communist losses would impair the overall strength of the left. He also wants to ensure that the Communists continue to share responsibility for the government's austerity policy.

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Recent polls have shown the government's vulnerability. Disenchantment is especially strong among Communist voters. Mitterrand and the Socialist leadership may have concluded that the need to ensure a strong Communist turnout overshadows grass-roots Socialist dissatisfaction with "gifts" to the Communists.

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# LEBANON-ISRAEL: Talks Begin

//President Jumayyil hopes that the talks with Israel beginning today will open the way for parallel negotiations with Syria and the PLO leading to the withdrawal of all foreign forces. There are an estimated 42,000 Syrian troops and 10,000 to 15,000 PLO fighters still in Lebanon, most in the north and in the Bekaa Valley. Israel maintains approximately 15,000 troops from its northern border to the southern and eastern outskirts of Beirut. Jumayyil argues that the presence of foreign troops has spawned the recurring factional fighting in the Shuf and Alayh mountain districts outside Beirut, in Tripoli, and elsewhere.//

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Comment: //The removal of foreign troops is important for the restoration of Lebanese sovereignty, but their withdrawal is unlikely to bring about greater internal stability. The Syrians and Israelis probably will pursue their interests through surrogates, and communal and factional differences will remain a constant source of conflict.//

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# USSR-ARGENTINA: Commercial Air Link

The president of Argentina's national airline has stated that, under an agreement signed this month, Aeroflot will begin service on 1 February between Moscow and Buenos Aires. The USSR also has a commercial air link with Peru. This year Brazil, Panama, and Colombia rejected Soviet requests for landing rights for Aeroflot.

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Comment: //Argentina will use the agreement to demonstrate its willingness to reach substantive agreements with the USSR. Nevertheless, Buenos Aires remains suspicious of Soviet intentions and will seek to limit the number of Soviet technical personnel to be stationed in Argentina under the agreement.//

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## USSR - WESTERN EUROPE: Soviet Remarks on CSCE

A Soviet delegate to the CSCE review meeting in Madrid reportedly has said that General Secretary Andropov is "less attached" to the CSCE process than Brezhnev was and has hinted that the Soviets will not be interested in continuing the talks if no solution is reached by Easter. According to the Norwegian political adviser to NATO, the Soviet delegate also implied to the Norwegian CSCE delegate on 13 December that Andropov could not accept concessions on human rights but could be more flexible on other issues. He asserted that the presence of Andropov's son in the delegation is the cause of a recent sharpening of rhetoric by the Soviet delegates, who do not want the younger Andropov to tell his father that they have responded too mildly to Western statements. [REDACTED]

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Comment: The Soviet delegate is using the familiar tactic of mixing an implicit threat to break off the talks with hints of possible compromise on some issues. Nonetheless, his characterization of Andropov's attitude is consistent with other indications that the new Soviet leader favors more direct language in his diplomatic dealings than Brezhnev did and that he will wield tight control over ideological matters. [REDACTED]

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## EC: Dispute Over Fishing Rights

//The EC is facing another internal battle over the allocation of fishing rights when existing regulations expire on 31 December. Despite an ultimatum from nine members, Denmark has vetoed a new arrangement that would have temporarily reduced tensions. Copenhagen claims that, without a new agreement, EC members will be required to open their coastal waters to all EC fishermen. British officials, however, threaten confiscation and heavy fines if other members' vessels are found within the UK's 12-mile limit.// [REDACTED]

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Comment: //The dispute reflects the political influence and conflicting interests of the British and Danish fishing industries. More than half of the EC's most sought-after fish are found in British coastal waters. Danish fishermen, whose catch accounts for almost one-third of EC fish exports, maintain that proposed British conservation measures would discriminate against them. The matter probably will be referred to the EC Court of Justice and will add to anti-EC sentiment in both countries.// [REDACTED]

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WEST GERMANY: Reduction in Foreign Aid

//Bonn has announced cuts of \$600 million in its foreign aid program for 1983. This year the program amounted to \$2 billion. The government also says it will assign higher priority to countries that are pro-Western or neutral and to foreign projects that create jobs in West Germany. Despite the cuts, West German officials claim commitments already made will be honored.// (C NF)

Comment: //Although the government would like to reorient West Germany's foreign aid program, its commitment to carry out agreements signed by the Schmidt government leaves it little leeway.

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## Special Analysis

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### USSR-AFGHANISTAN: The Fighting Drags On

*//Three years after the USSR invaded Afghanistan, the 100,000 Soviet troops there have failed to destroy guerrilla bands, to secure areas after operations, and to stop resistance manpower and weapons infiltration from Iran and Pakistan. As a result, Moscow faces the prospect that armed resistance will continue for years.//*

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*//Soviet military planners face sizable problems. The Afghan Army is small and ineffective, and there is little chance that it can be turned into a real fighting force in the foreseeable future.//*

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*//The USSR's air and ground forces are far too small to conduct successful counterinsurgency operations and to secure the border. Soviet units, equipment, and tactics remain largely unsuited to counterinsurgency warfare in Afghanistan's rugged terrain. Military operations are often undermined by the hostile civilian population, which supplies the insurgents with food, shelter, recruits, and information.//*

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### The Insurgents' Progress

*//The increased effectiveness of the guerrillas is the result of continuing improvements in their forces. The insurgents have adopted better tactics and learned to use intelligence information. As a result, they have taken advantage of rugged terrain to avoid enemy attacks and to hit convoys and isolated garrisons. In addition, more and better weapons have enabled the insurgents to attack with greater effectiveness and to defend themselves against enemy ground and air attacks.//*

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*//Cooperation among insurgent groups also has increased. Among some groups, however, there are still instances of fighting.//*

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## Moscow's Military Options

//Although the insurgents control most of the countryside, the Soviets have not suffered any major military setbacks over the last year. They apparently do not find the human, material, and political costs of the war unacceptable.//

//The recent tough editorial on Afghanistan in *Pravda* and General Secretary Andropov's two meetings with Afghan President Babrak seemed designed to end speculation about what the Soviets might be prepared to accept in return for a political settlement. Moscow will continue to project an image of flexibility and to show interest in a political settlement to try to win Pakistan's acceptance of the regime in Kabul and to reduce foreign support for the resistance. This policy also may help mute criticism of the USSR at the Nonaligned Summit in New Delhi next spring.//

## The Year Ahead

//A continuing military stalemate is the best prospect for the coming year. The Soviets probably will be unable to destroy the resistance with their existing forces, and the insurgents are too weak and disorganized to defeat major Soviet units.//

//The Soviets are likely to keep trying to wear down the resistance by conducting periodic multibattalion operations and by working to undermine the insurgents' civilian support. Resistance forces will try to improve their effectiveness by increasing their numbers, training, and equipment.//

//Access to new recruits and increasing amounts of weapons from Pakistan and possibly Iran has become crucial for the insurgents. Consequently, the Soviets may launch new efforts to stop insurgent infiltration.//

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## Special Analysis

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### USSR: The Astrakhan Natural Gas Project

*The USSR has turned again to the West for gas equipment and financing, this time to develop natural gas reserves at Astrakhan. The \$1.5 billion project is intended to produce additional natural gas for domestic consumption and possibly to sustain existing exports. It also will contribute to petrochemical and fertilizer production. Western bidders are being asked to provide highly favorable credits.*

[redacted]

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Negotiations on the Astrakhan project with potential Western equipment suppliers were initiated in 1977. They were not pursued vigorously until last summer, however, when a Soviet negotiating team was stationed in Cologne, West Germany. The Soviets hope--perhaps optimistically--to conclude most of the equipment contracts by early 1983.

[redacted]

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### Dimensions of the Project

Soviet geologists estimate that the Astrakhan gas-field may be nearly as large as the Urengoy deposits that will feed the export pipeline and several domestic pipelines. When the first two phases of the project are completed, possibly by 1990, Astrakhan could produce 30 billion cubic meters of gas annually, or 6 percent of the USSR's output for 1982. The project also is expected to yield nearly 3 million tons of sulfur and 1.8 million tons of gas condensate as feedstock for chemical plants.

[redacted]

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The natural gas at Astrakhan is "sour"--more than one-third of the gas extracted consists of hydrogen sulfide, carbon dioxide, and other contaminants that are highly corrosive and hazardous to handle. In the late 1970s the Soviets were forced to halt deep exploratory drilling because they lacked sulfur-resistant drill pipe, casing, and other specialized equipment. In addition, the gas reservoirs are nearly three times as deep as those being exploited at Urengoy, and they reportedly have extremely high pressures and temperatures.

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In the first two development stages, the Soviets are seeking extensive Western equipment and technology to drill and equip about 60 wells, construct gas-gathering systems, and build gas-processing and sulfur-recovery plants. Soviet negotiators have stipulated that no US equipment be used unless similar equipment is unavailable elsewhere. [redacted]

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The hard currency cost for items on the USSR's shopping list is an estimated \$1.5 billion, almost half of which would be for special corrosion-resistant, seamless, tubular steel and pipe. In addition to hard currency outlays, the Soviets have committed substantial resources to infrastructure, including housing for as many as 30,000 workers. [redacted]

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Astrakhan gas is intended primarily to fill domestic requirements, especially in the Caucasus region. It also could help meet future export commitments via the existing Soyuz pipeline to both Eastern and Western Europe by compensating for declining production at the Orenburg field. [redacted]

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Sulfur extraction at Astrakhan would help reduce the USSR's dependence on Poland and Western countries, which supplement its own supplies of sulfur. Carbon dioxide extracted at Astrakhan will be transported and injected into oilfields to enhance oil recovery, and all recovered natural gas liquids will provide feedstock to nearby petrochemical plants. [redacted]

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#### Western Involvement

At least 15 West European and Japanese firms are vying for contracts, and the Soviets are pushing for loans on favorable terms to buy the equipment. The two principal firms competing for the gas-gathering system are Mannesmann of West Germany and Partec-Lavalin of Canada. [redacted]

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There are reports, however, that Mannesmann has won this contract. No details on the terms of the deal are available. [redacted]

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A French consortium signed a \$650 million gas plant contract on 21 December. Japanese steelmakers reportedly have an inside track on a \$650 million order for corrosion-resistant, seamless, tubular steel for the gas-gathering

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and gas-processing facilities. Because of the hot corrosive gas, however, a substantial amount of US technology and equipment will be required. [redacted]

#### Dealing With the OECD

The Astrakhan gas project is the first major test of the new US-initiated OECD consensus on interest rates. In July the OECD countries agreed to fix minimum interest rates on official lending to the USSR at 12.4 percent for countries that have high interest rates and at 0.3 percentage points above the long-term domestic commercial rate for countries with low interest rates. The Soviets have made clear that they want the same 7.8-percent contract rate secured on Western government - backed credits for the Siberian export pipeline. [redacted]

The Western governments, meanwhile, are complaining that they are being torn between a desire for their firms to win contracts and the wish to appear not to be straying too far from the OECD consensus on interest rates. Japan-- a low interest rate country--recently agreed to finance pipe sales to the USSR at a rate of 7.8 percent, even though the consensus agreement calls for a loan rate of 8.7 percent. [redacted]

Japanese steelmakers evidently have agreed to absorb the difference between the two rates. Although this pipe probably is not intended for use in the Astrakhan project, the Soviets are sure to seek similar terms for any Astrakhan purchases. [redacted]

[redacted]

The issue of financing was sidestepped in the contract signed 21 December. It merely calls for Moscow to pay cash as deliveries--to begin in 1984--are made.

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The Soviets, however, traditionally eschew cash payments for long-term "turnkey" projects. Some form of financing probably will be incorporated in the deal at a later date.

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